

A Message from your Retirement Board Chairman

Poor investment climate means no PERSI Gain Sharing in January 2002

Gain Sharing for 2001 was well timed, allowing members and employers to share \$155 million

Retirement Board
Chairman
Jody B. Olson



If you've followed the investment world lately, you've probably guessed that PERSI investments did not fare so well last year. The PERSI fund had investment returns of -6.08% for Fiscal Year 2001 (year ended June 30, 2001), which means there will be no PERSI Gain Sharing in 2002. Retirees will NOT receive a 13th Check in January, active members will NOT receive a deposit into their Choice Plan accounts, and employers will NOT receive a PERSI credit.

We timed the first Gain Sharing payments perfectly. If Gain Sharing hadn't occurred last January, we might not have received any distributions until, at least, January 2003. As it was, PERSI employers, retirees and active members received over \$155 million dollars in 2001.

Although our negative investment returns may sound disastrous to some, rest assured that your PERSI Base Plan benefits are secure and guaranteed, and all in all, PERSI's portfolio performed quite well last year compared to many investments. We controlled the downside leaving more assets to grow when the market recovers. See the summary of last year's portfolio activity by PERSI's Chief Investment Officer, Bob Maynard. ♦

PERSI portfolio down, but outperforms markets

By Bob Maynard, Chief Investment Officer

After one of the best almost decade-long runs in history, the world equity markets had one of their worst years in history. US stock markets were down 15% for the fiscal year, their worst single fiscal year performance since 1970. International equity markets were down 26%, their worst fiscal year performance since 1974.

The PERSI fund was also down for the year, but ended the year only -6.08%. This is PERSI's worst annual performance since 1973 and 1974 (when PERSI's returns were -6.8% and -16.0%, respectively). The value of the fund as of June 30, 2001 was \$6,726,758,246, a decrease of \$512 million during the fiscal year (\$441 million due to the markets, and \$70 million due to negative cash flow because of gain sharing). Before actuarial gains and losses, this puts our funding level at about 99%.

It could, and should, have been worse. Given our basic asset allocation of 55% US equities, 15% international equities, and 30% fixed income, we should have expected to be down around -8.9%. Instead, our losses of 6.1% were almost 3% better than we should have expected, or about \$200 million "saved."

PERSI's US equities lost only 12.7%, compared to the general US stock market loss of 15.3% — an outperformance of 2.6%. PERSI's international equities lost 22.9%, compared to the general international equity loss of 25.8% — an outperformance of 2.9%. PERSI's fixed income gained 12.2% compared to the US

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fixed income market's general gain of 11.4% — an outperformance of .8%. And, the star relative performer for the year, PERSI's global equities lost only 7.6% compared to the general losses in the world equity market of -22.5% — an outperformance of almost 15%.

The past year provided a realistic "stress test" for the overall portfolio and each of its components. We do not try to time the markets. Instead, we take as a given the general market environment, and when markets are good we hope to participate fully, and when markets are poor, we hope to "cut off the downside," and suffer less than we would generally expect. For most of the 1990's it was clear that we could participate fully in good markets. Both our absolute and relative returns to our peers were excellent during the good times of the mid to late 1990's

One question we had during the 90's was whether the higher-than-expected returns were being achieved because of higher-than-expected risk — that the price to be paid for such good performance was a greater-than-market loss when times were bad. While we believed that the portfolio was structured to avoid such a result, until it was tested we could not be sure. Thus, last year provided the first test of the portfolio, and it came through with "flying colors." Not only did the single year returns show each segment and the total portfolio doing better than expected, but the longer-term returns also showed outperformance over a complete market cycle.

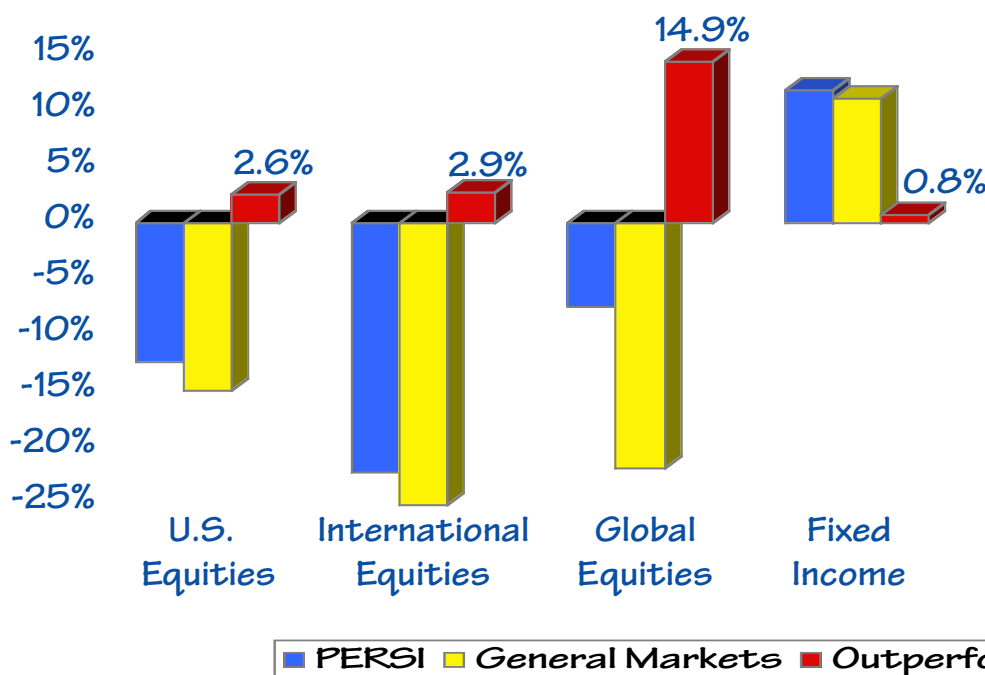
The past year also proved the wisdom of our policy of retaining a reserve. That 13% reserve absorbed nearly the entire market decline in the worst equity market in over a quarter

century. It looks like a one standard deviation reserve is an appropriate level for the future. It almost looks like we predicted exactly this market decline. If we hadn't had a reserve, our funding level would have dropped to the mid 80% level, and contribution rates and COLAs might have been affected.

As for results for last fiscal year, as stated earlier, in absolute terms they were ugly, while relatively our results were better than expected. The markets generally continued their schizophrenic nature.

All in all, it was a year to remember with mixed feelings. We all knew the good times would not go on forever, and they did not. But, given the bad markets, the portfolio reacted much better than I expected, and probably as well as or better than we could have hoped. ♦

PERSI Outperformed Markets & Expectations in Fiscal Year 2001



Last year, PERSI's portfolio outperformed all areas of the general markets, particularly in global equities where we outperformed the market by nearly 15%.

PERSI Gain Sharing funds save jobs and provide firefighters with lifesaving equipment

How employers spent their Gain Sharing funds

When you received your Gain Sharing distribution last winter, PERSI employers received a “holiday” from PERSI contributions. All together, PERSI employers had some \$77 million in Gain Sharing savings to spend as they saw fit.

Employers were responsible for determining for themselves how their funds were spent. PERSI was in no way involved in these decisions. Here’s how some employers spent their Gain Sharing:

Twin Falls Times News:
“Twin Falls school officials cut ten certified positions for the school year 2001-2002. But it could have been worse. The original number to be cut was 15. **“Extra money earned by investments in the Public Employee Retirement System of Idaho saved five jobs, said Bob Seaman, the district’s business manager.** Two teaching positions, two classified and one-half administrative position, which amounted to \$210,000 were kept.”

Idaho Falls Post Register:
“The Idaho Falls Fire Department recently picked up some cutting-edge new equipment that’s proven to be a lifesaver. **With funding from the Public Employee Retirement System of Idaho to cover the \$57,500 price tag, the department unwrapped five new thermal imaging devices two weeks ago.** ‘It’s a fantastic new technology,’ Idaho Falls Fire Chief Robert Drake said last week. ‘Instead of feeling their way through blind, by

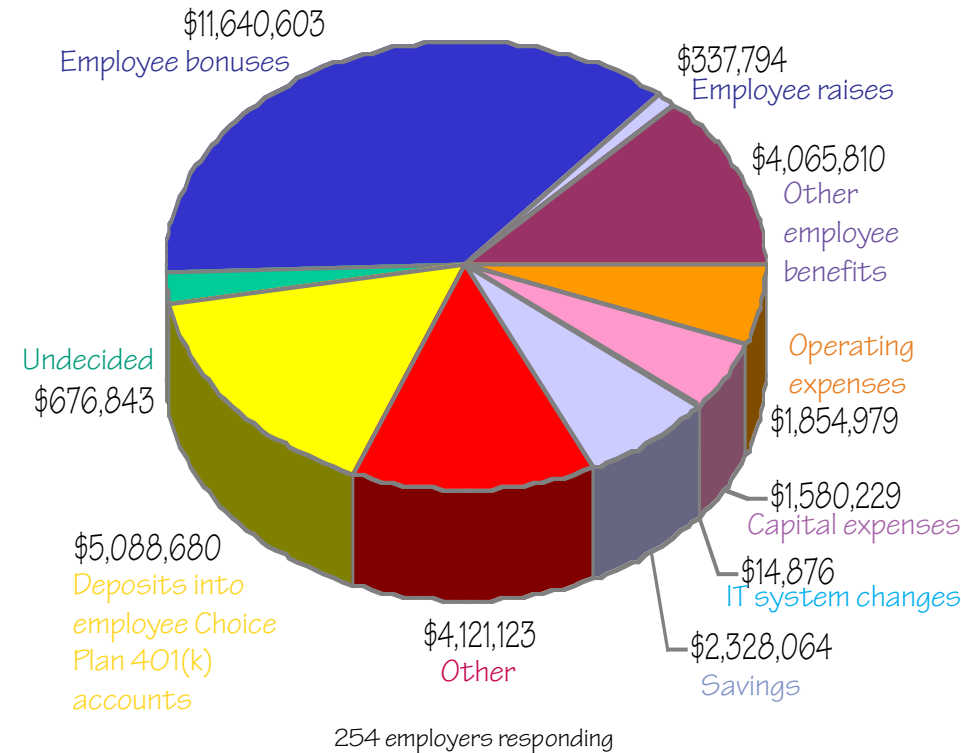
using this device a person lying on the floor would stand out. It allows us to fight the fire quicker by making hot spots and potential roof collapses visible, but the big thing is rescuing human occupants.’ Similar equipment is credited with saving a 2-year old girl in Caldwell.”

PERSI recently conducted a survey of our 540 non-State agency employer members to determine how they utilized their savings from PERSI Gain Sharing. (One hundred of our employers are state agencies. They were directed to return 80% of their Gain Sharing to



the State’s general fund, and 20% was to be used for training.) With 254 employers responding, here’s how the non-state Gain Sharing savings were spent: ◆

How non-state employers spent their Gain Sharing savings



Interactive Financial Planning Program available on PERSI web

Wondering how much you have in your PERSI Base Plan and Choice Plan accounts and what that may be worth at retirement?

Want to know if your PERSI benefits, Social Security and your other savings will be enough for you to live comfortably in retirement?

Would you like to see how inflation, salary increases and other factors affect your savings?

If so, [check out our Interactive Financial Planning Program at www.persi.state.id.us](http://www.persi.state.id.us). There is a link to the program on our homepage.

The program allows you to play around with different savings and investment scenarios, inflation, salary and more to help you reach your financial goals.

The interactive program is quite sophisticated and pulls your actual individual data from a number of different sources. It uses data from

and projects benefits for:

- the PERSI Base Plan,
- the new Choice Plan,
- Social Security, and
- other savings you may have.

The program allows you to vary your assumptions regarding:

- how much longer you will work,
- when you will retire,
- how much you will put in the Choice Plan and/or other plans,
- your predictions on inflation,
- anticipated salary increases,
- projected investment returns, and more.

The program uses graphs to illustrate estimated retirement income by source and in total, year-by-year beginning at the time of retirement, and compares it to your desired "replacement income" (the income that you believe you will need during retirement).

You may use the program as many times as you want – and it's always free! ♦

Choice Plan does not replace Base Plan

We've had a few questions about this, so we'd just like to reiterate: The new PERSI Choice Plan, which was initiated by Gain Sharing deposits into your Choice Plan accounts, does **NOT** replace the PERSI Base Plan you've always had.

The Choice Plan is a NEW benefit for you IN ADDITION to your Base Plan. For more information on the Choice Plan, visit

www.persi.state.id.us/choice.htm or call toll-free 1-866-ID-PERSI. ♦

I D A H O

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PERSI Information Sources

You have several ways to learn about your PERSI plans, fund options and financial planning information.

On-line www.persi.state.id.us

Toll-free phone

Choice Plan: Toll-free 1-866-ID-PERSI (1-866-437-3774)

Base Plan: 1-800-451-8228

Financial & Investment Education: 1-800-453-0321

Video Bookpack If you did not receive yours last Spring, call 1-800-453-0321.

Live Presentations We're visiting employers all over Idaho this year to provide live presentations. Watch for flyers to alert you when we'll be in your area. Schedules also are available by fax by calling 1-800-453-0321 and are on the website.